Message Text

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ACTION EUR-12

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R 131508Z JAN 78
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TO SECSTATE WASHDC 4733
INFO AMEMBASSY LONDON
AMEMBASSY BRUSSELS
AMEMBASSY BERN
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AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

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SUBJ: INDUSTRIAL SECTOR OUTLOOK IN THE FRG IN 1978

REF: BONN 474

SUMMARY:
GERMAN ECONOMIC PROGNISTICATORS PREDICT FAIRLY MINIMAL
INCREASES IN PRODUCTION GROWTH IN THE INDUSTRIAL SECTOR
DURING 1978. INDUSTRIAL SECTORS WITH BEST PROSPECTS
INCLUDE MACHINERY, METALWORKING MACHINERY, CHEMICALS,
MOTOR VEHICLES AND PETROLEUM. THOSE WITH A POOR
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OUTLOOK INCLUDE: CLOTHING, IRON AND STEEL, TEXTILES,
CONSTRUCTION AND COAL MINING.

GENERAL OUTLOOK:
1. ECONOMIC ANALYSTS OF THE INDUSTRIAL SCENE IN
GERMANY TAKE A FAIRLY PESSIMISTIC VIEW OF PROSPECTS FOR
INDUSTRIAL GROWTH IN 1978; INDUSTRIAL ASSOCIATION

SPOKESMEN REMAIN AS USUAL EVEN LESS OPTIMISTIC THAN
THE ECONOMISTS. ONE ESTIMATE DONE ON THE BASIS OF A
SURVEY OF INDUSTRY, COMPARING PERCENT CHANGE FROM ONE
YEAR TO THE PREVIOUS YEAR, PROJECTS A SLIGHT DECLINE
IN OVERALL INDUSTRIAL PRODUCTION, FROM 3 PER CENT IN
1977 TO 2.5 PER CENT IN 1978. THE SAME SURVEY FORECASTS
A RELATIVE IMPROVEMENT IN EMPLOYMENT FROM -0.8 PER CENT
IN 1977 TO -0.5 PER CENT IN 1978; PRODUCER PRICES TO
GO UP FROM 2.5 PER CENT (1977) TO 3 PER CENT (1978)
AND REAL INVESTMENT TO RISE FROM 3.5 PER CENT (1977)
TO 4 PER CENT (1978).

2. PRESENTLY INDUSTRIES SUPPLYING CHIEFLY CONSUMER
GOODS ARE OPERATING AT ABOUT 97 PER CENT CAPACITY,
WHEREAS INVESTMENT GOODS PRODUCERS OPERATE CLOSER TO
81 PER CENT CAPACITY LEVER DRIVEN DEMAND WILL TEND TO DROP
OFF SOMEWHAT IN 1978. ON THE OTHER HAND, EXPENDITURE
FOR EQUIPMENT ON A SEASONALLY ADJUSTED BASIS SHOULD BE
UP SOME 4 PER CENT.

OUTLOOK BY INDUSTRY:
3. IRON AND STEEL, WHICH HAS BEEN IN THE DOLDRUMS FOR
SEVERAL YEARS NOW, WILL CONTINUE TO BE PLAGUED BY LOW
LEVELS OF DEMAND FOR STEEL, BOTH DOMESTICALLY AND ALSO
FROM FOREIGN BUYERS. IN MINING, PARTICULARLY FOR COAL,
STOCKS ARE AT RECORD HIGHS WITH LITTLE PROSPECT OF

INCREASED DEMAND, DUE TO RECESSION OF MAJOR USER, THE
STEEL INDUSTRY. FOR MACHINE TOOLS, INDUSTRY EXPERTS
FEAR LOSSES OF EXPORT ORDERS DUE TO CURRENCY
REVALUATIONS, WHICH HAVE TENDED TO MAKE SIMILAR QUALITY
U.S. AND SWISS MACHINES MORE ATTRACTIVE TO BUYERS.
ADDITIONALLYTHE MACHINE TOOL INDUSTRY IS SUFFERING A
SHORTAGE OF SKILLED LABOR, WHICH IS ALSO AFFECTING
PRODUCTION SCHEDULES.

4. THE GERMAN SHIPBUILDING INDUSTRY CONTINUES TO BE
EXTREMELY DEPRESSED AND IS BASICALLY UNCOMPETITIVE FOR
MANY TYPES OF SHIPS VIS A VIS JAPANESE BUILT SHIPPING.
WHILE GENERALLY DOING FAIRLY WELL, THE AUTOMOTIVE
INDUSTRY IS FEARFUL OF MORE VIGOROUS JAPANESE
COMPETITION IN THIRD-COUNTRY MARKETS, BECAUSE OF MORE
RAPIDLY RISING GERMAN PRODUCTION COSTS. AT THE
LUXURY END OF THE MARKET, SOME GERMAN PRODUCERS ARE
EQUALLY WORRIED BY STRINGENT NEW ENGINE EFFICIENCY
REGULATIONS AND TAXES ON GAS WHICH MAY BE INTRODUCED
IN THE U.S.

5. THE ELECTRONICS INDUSTRY IS ONE SECTOR WITH BETTER

THAN AVERAGE GROWTH EXPECTATIONS. DEMAND FOR TELEVISION
SETS, VIDEO-CASSETTE RECORDERS, ETC. ARE UNDERGOING A
BOOM BECAUSE OF THE UPCOMING WORLD SOCCER CUP MATCH.
A FURTHER PLUS FACTOR NOW APPEARS TO BE SMOOTHER

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IMPLEMENTATION ON CONSTRUCTION OF PLANNED ELECTRIC
POWER GENERATING STATIONS. ELECTRONIC CONTROLLED
MEDICAL EQUIPMENT ON THE OTHER HAND IS EXPECTED TO HAVE
A FLAT YEAR, FOLLOWING TWO EXTREMELY GOOD YEARS IN
WHICH MARKET SATURATION TOOK PLACE. PAPER AND LEATHER
INDUSTRIES ARE PREDICTING BETTER TIMES AHEAD TOGETHER
WITH THE METALWORKING INDUSTRY, WHICH IS A PRIME
SUPPLIER TO THE MOTOR VEHICLE SECTOR. TEXTILES AND
CLOTHING EXPECT CONTINUED LOW LEVELS OF EXPANSION.

6. RESULTS OF A SURVEY PUBLISHED BY WIRTSCHAFTS WOCHE

INDICATE FOLLOWING PER CENT CHANGES IN PRODUCTION
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(COMPARING EACH YEAR TO THE PREVIOUS YEAR):

	1976	1977	1978
COAL MINING	- 4	- 6	2
POWER AND LIGHT	10	2	2.5
CONSTRUCTION	3	1.5	2
STONE & GRAVEL	4	2.5	3
IRON & STEEL	3.5	- 6	- 0.5
CHEMICALS	14	0	3
PETROLEUM	5	4	3
MECHANICAL MACHINERY	2	0.5	2.5
MOTOR VEHICLES	11	8	3
ELECTRICAL AND ELECTRONIC EQUIPMENT	9	8.5	5
METALWORKING & PROCESSING	13	9.5	4.5
WOODWORKING	8	4	3
TEXTILES	8	- 1.5	1
CLOTHING	- 1.5	- 4	0
FOOD PROCESSING	3	1	2.5

7. TRADE OUTLOOK FOR 1978 COVERED BY REFTEL.

8. TRENDS IN R&D:
AN IMPORTANT LONG-RANGE POLICY INSTRUMENT USED BY THE FRG IN PROMOTION OF INDUSTRY IS PUBLIC RESEARCH AND DEVELOPMENT EXPENDITURE. OVERALL EXPENDITURE FOR R&D INCREASED FROM DM 4.5 BILLION IN 1962 TO DM 27.3 BILLION IN 1977, AN AVERAGE ANNUAL GROWTH RATE OF 12.7 PER CENT. OVER THIS PERIOD, SPENDING BY PRIVATE INDUSTRY ON R&D WAS AT THE SLIGHTLY HIGHER LEVEL OF 13.1 PER CENT. ACTUAL R&D EXPENDITURES BY BOTH GOVERNMENT AND INDUSTRY IN 1977 TOTALED ABOUT DM 13.2 BILLION EACH. MAJOR CATEGORIES OF FRG R&D
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EXPENDITURE INCLUDE: MODERNIZATION OF THE ECONOMY (39 PER CENT OF TOTAL EXPENDITURES); IMPROVEMENT OF LIVING AND WORKING CONDITIONS (19 PER CENT); EXTERNAL SECURITY (22 PER CENT); RAISING LEVEL OF SCIENTIFIC PERFORMANCE (19 PER CENT). UNDER THE MODERNIZATION OF ECONOMY CATEGORY MAJOR PROJECT BREAKDOWNS ARE: IMPROVING SECURITY OF ENERGY AND RAW MATERIALS SUPPLY; PROMOTION OF DATA PROCESSING; TECHNICAL COMMUNICATION

AND ELECTRONICS; INNOVATIVE TECHNOLOGIES IN KEY
ECONOMIC SECTORS AND SPACE RESEARCH AND TECHNOLOGY.
BUDGETING FOR THESE ITEMS IS EXPECTED TO GO UP SLIGHTLY
FROM 39 PER CENT OF EXPENDITURES IN 1977 TO 41 PER CENT
IN 1980. SIMILAR MODEST INCREASES ARE EXPECTED IN
OTHER MAJOR CATEGORIES, INCLUDING PROJECTS ON HEALTH
AND NUTRITION RESEARCH, ENVIRONMENT AND PROMOTION OF
TRANSPORTATION AND COMMUNICATIONS.

9. COMMENT:
WE FEEL THAT THE FAIRLY GLOOMY OUTLOOK, PARTICULARLY BY
INDUSTRIAL COMMENTATORS WHO OFTEN TEND TO BE SUPER
CAUTIOUS ANYWAY, MAY NOT BE QUITE SO BLACK AS PICTURED.
THE INDICES OF ORDERS FOR INDUSTRIAL GOODS FOR THE LAST
FEW MONTHS OF 1977 COMPARED TO PREVIOUS PERIODS SHOW

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FEW MONTHS OF 1977 COMPARED TO PREVIOUS PERIODS SHOW
ENCOURAGING SIGNS OF PICKING UP. ESPECIALLY ORDERS OF
CAPITAL GOODS FOR THE DOMESTIC MARKET MAY TURN OUT TO
BE BETTER THAN ANTICIPATED. MUCH, HOWEVER, DEPENDS
ON THE OUTSIDE INFLUENCES INCLUDING GENERAL BUSINESS
CONFIDENCE AND RECOVERY BY MAJOR TRADING PARTNERS,
STABILITY OF CURRENCIES, BUT ALSO MODERATION IN CURRENT WAGE
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NEGOTIATIONS. SHOULD ANY OR ALL OF THESE FACTORS HAVE
A MARKED NEGATIVE INFLUENCE, ANY REVIVAL OF DOMESTIC
DEMAND WILL PROBABLY NOT REALLY GET OFF THE GROUND.
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